

Study of the Current State of Horse and Greyhound Racing in Texas and Industry Recommendations for Improvement

*presented as required by House Concurrent Resolution 252 and subsequent veto
Proclamation of the Governor*

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Table of Contents

Introduction

Texas Racing, an Industry in Decline	1
Texas Legislative Action	1
Governor Vetoes HCR 252, Study Moves Forward as Directed.....	2
The Texas Racing Commission.....	3
Texas Racing Commission Role in the Study Process.....	3
Report Structure	4

Industry Advisory Group Report and Recommendations

State of the Industry	7
Competitive Issues	10
Illegal Gaming and Internet Wagering.....	12
Prospects for the Future	13
Effect of the Industry Decline on the State	13
Possible Solutions to the Current State of the Industry.....	14
Summary of Recommendations	14
Advance Deposit Wagering	14
County Fair Racing.....	15
Video Lottery.....	16
Instant Racing.....	18
Exchange Wagering.....	19

Appendices

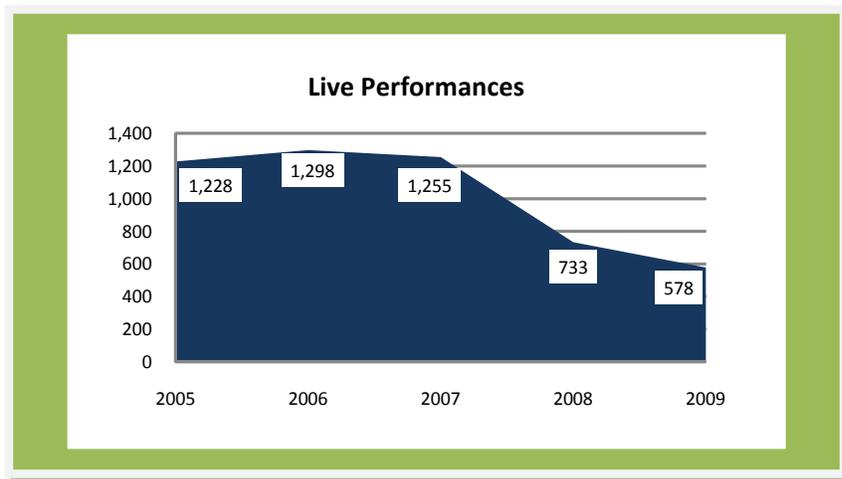
Appendix A: House Concurrent Resolution 252	23
Appendix B: Governor's Veto	25
Appendix C: Agenda and Transcript for Meeting on October 6, 2010	27
Appendix D: County Fair and Festival Material	59
Appendix E: Advanced Deposit Wagering Material.....	61
Appendix F: Racetrack Working and Living Conditions/Racetrack Chaplaincy	67
Appendix G: Agenda and Transcript for Meeting on December 2, 2010	77
Appendix H: Comparative Statistics.....	99
Appendix I: Current State of the Texas Racing Industry	103
Appendix J: Projected Impact of VLTs	111
Appendix K: Instant Racing.....	123
Appendix L: Exchange Wagering	125
Appendix M: Racing Commission Strategic Plan Excerpt 2011-2015.....	129
Appendix N: Thoroughbred Breeding Program.....	179

Introduction

Texas Racing, an Industry in Decline

The pari-mutuel industry in Texas is struggling. According to data from all operating racetracks for the five years preceding 2010:

- Attendance decreased 12 percent
- The total amount of money wagered fell more than 23 percent
- The amount paid in purses declined by more than 23 percent
- The number of live racing performances diminished from 1,228 in 2005 to 578 in 2009
- The amount of revenue available to racetracks, horse and greyhound purses, local communities and the state decreased.



The situation in 2010 has not improved. Members of Texas Government, among others, have taken notice of the continuing decline.

Texas Legislative Action

The 81st Legislature passed House Concurrent Resolution 252 (HCR 252) calling for a study of the current state of horse and greyhound racing in Texas. The resolution required the Governor to appoint a task force to study issues related to revitalizing the racing industry in the state.

The resolution notes:

- The economic benefits to agri-business and local communities
- The decline in attendance and amount wagered
- That industry groups have expressed a desire to revitalize the industry through innovative advertising and marketing strategies and other initiatives
- That the Racing Commission oversees the industry but is without authority to promote it
- A request of the forum to explore ways of stimulating Texas' racing programs.

The task force contemplated by the resolution would have included representatives from the training and breeding industries, the business community, the regulatory community, and other experts with an interest in horse and greyhound racing. The resolution further required that the task force's membership should reflect the demographic diversity of the state.

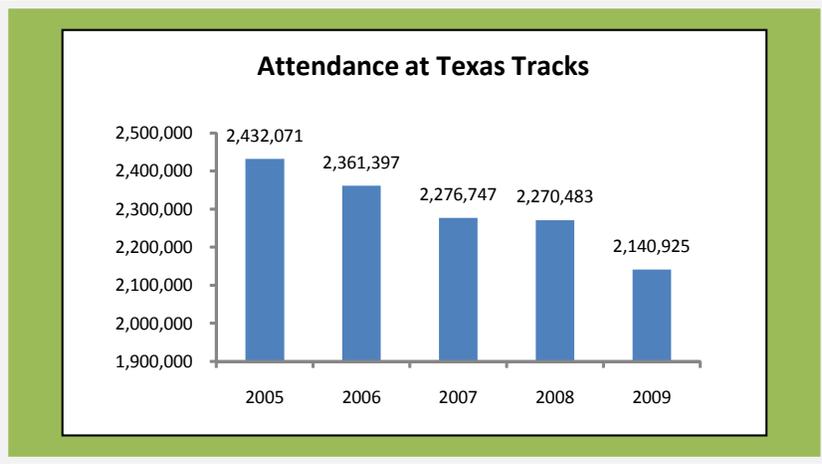
The resolution charged the task force to:

- Identify ways to support and promote horse and greyhound racing and breeding programs in Texas
- Identify guidelines for increasing revenue and creating more jobs within the industry
- Identify ways to improve the working/living conditions for those who work and reside in and around racetracks
- Develop methods to enhance participation in and enjoyment of the sport.

Governor Vetoes HCR 252, Study Moves Forward as Directed

The Governor vetoed HCR 252, noting that the Texas Racing Commission (TRC) is responsible for regulating the racing industry in Texas. In his veto proclamation, the Governor requested that the Commission work to meet the intent of the original resolution. The Governor's veto proclamation contained the following language:

Several of the responsibilities assigned to the task force...are already handled by the Texas Racing Commission. Other responsibilities, including review of the Texas Racing Act, are the duty of the Sunset Commission.



TRC already has the power to regulate "all persons and things relating to the operation of [race] meetings," so there is no reason to create a new task force that would duplicate recommendations for this industry. The industry will continue to develop ways to promote racing and breeding in the state without further government bureaucracy.

Therefore, I direct TRC, in conjunction with private industry, to fulfill the intentions of this resolution by studying the current state of horse and greyhound racing and breeding in Texas and making appropriate recommendations for the industry.

The Racing Commission will provide this full report to the Governor, the Lieutenant Governor and the Speaker of the House of Representatives.

The Texas Racing Commission

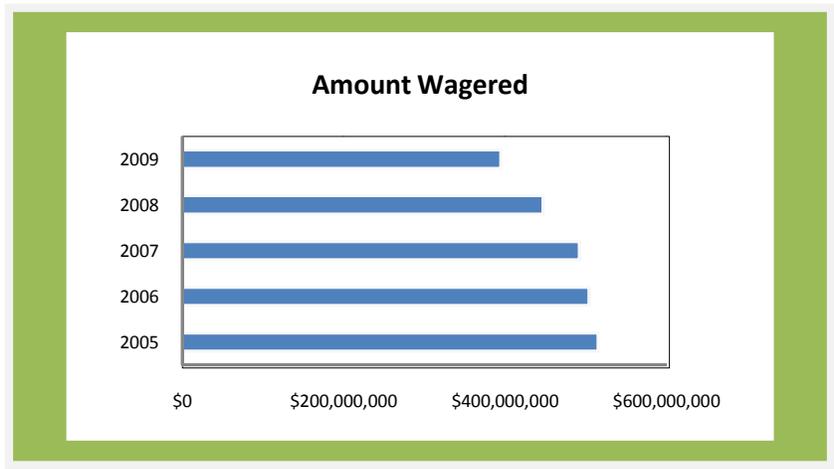
The Texas Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring and enforcement. Statute and rules require the Commission to:

- License racetracks that offer racing and the people who work at the racetracks or own race animals
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals, and conduct drug tests to ensure the animals race without prohibited substances
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator systems (complex computer systems that tally and calculate pari-mutuel wagers), and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a healthy and vigorous breeding industry in the state.

Texas Racing Commission Role in the Study Process

At one time, the Texas Racing Act contained language authorizing the Commission to promote the racing industry. The Texas Legislature removed that language from the Act. Additionally, state agencies are precluded from advocating for or against legislative measures. The Commission simply is not appropriately positioned to make recommendations for the industry it regulates.

Given these limitations, the Commission believed it could best serve the process and satisfy the intentions of the HCR and the Governor's veto by acting as the study facilitator. The Commission formed a Committee on the Current State of Horse and Greyhound Racing in Texas. The membership of the Committee included Commission Vice Chair Robert Schmidt, Commissioners Ronald Ederer (Committee Co-Chair), Gloria Hicks (Committee Co-Chair), Ann O'Connell and Kent Carter, D.V.M.



The Committee created an Industry Advisory Group comprised of stakeholders throughout the industry. Representatives included individuals from:

- Horse and greyhound tracks — Bryan Brown, Retama Park; Sally Briggs, Joe Quinn, Gulf Greyhound Park
- Texas Thoroughbred Association — David Hooper, Dr. Jacquelyn Rich
- Texas Greyhound Association — Diane Whiteley
- Texas Horsemen's Partnership — Jan Haynes, Marsha Rountree
- Texas Quarter Horse Association — Rob Werstler
- Interested private parties — Phil Leckinger, Tammy Wincott

Commission staff held several conference calls with the Industry Advisory Group to prepare for the study. The final plan called for two public meetings. Agency staff and the Industry Advisory Group set the meeting agendas and dates for public testimony. Agendas and complete transcripts for the meetings are available in Appendices C and G.

Upon completion of the public hearings, the Industry Advisory Group set out to formulate recommendations that could help revitalize the racing industry in Texas.

Report Structure

The report contains an introduction, a section devoted to the Industry Advisory Group with accompanying recommendations, and a set of appendices. The appendices contain the original House Joint Resolution, the Governor's veto, full transcripts of the testimony delivered at the public hearings, presentations as supplied at the public hearings (not edited) and a wealth of other detailed information provided to the Committee during the study process.

***Industry Advisory Group
Report & Recommendations***

State of the Industry

Texas and horses have a long history of togetherness. For generations, Texans have been involved in horse activities including racing, showing, and events such as barrel racing, cutting, dressage, hunter-jumper competition, trail riding and just plain riding for pleasure.

Texas is home to more horses of all types than any other state, according to a 2005 study by the reputable Deloitte firm for the American Horse Council. The study found that Texas led the nation with 978,822 horses involved in various activities in this vast state. The report also identified 455,600 Texas participants.

Because of the size and scope of horse activity in Texas, the state became home for the national headquarters of three of the most prominent horse organizations in the United States. The American Quarter Horse Association is located in Amarillo and the American Paint Horse Association and National Cutting Horse Association both have their headquarters in Fort Worth.

In 1986, the Texas legislature approved pari-mutuel racing subject to a state-wide vote. This vote occurred in 1987 and pari-mutuel racing at horse and greyhound tracks was approved. The Texas Racing Commission was created to regulate the industry.

In 2000, the industry reached a peak with attendance of 3.3 million and wagering of \$633 million on live and simulcast racing. The industry was hit in 2001 with the negative impacts of 9/11 and significantly increased competition from tracks in the surrounding states. By 2009, track attendance in Texas had declined 35 percent from 2000 while wagering had plummeted 37 percent.

Over that same period, the state lost its position as a national leader in areas such as Quarter Horse breeding, where Texas went from having a majority of the top 50 sires in the nation to having just five in 2009. The number of stallions, mares bred and foals born have suffered steep declines.

Sam Houston Race Park and Retama Park each struggled in their first years of operation as live handle and attendance projections fell short of expectations. Once Lone Star Park opened, horse racing in Texas stabilized and had some upward growth and momentum leading into 2000.

Thanks to the success of Gulf Greyhound Park, total annual live handle (the amount of money wagered on the live product at the track) peaked in 1993 at \$437 million. The amount wagered on simulcasting topped off at nearly \$478 million in 2002. By 2009, the total live handle at all Texas tracks had dropped to \$50 million and wagering on simulcasting had fallen to \$344 million.

The Texas racing industry has declined tremendously relative to neighboring states. Comparing the purse revenue paid to Thoroughbred and Quarter Horse owners in Louisiana with the purse dollars paid to Thoroughbred and Quarter Horse owners in Texas underscores the depth to which

Texas has fallen. In 2009, Louisiana purses for Thoroughbreds and Quarter Horses amounted to \$106 million, whereas purses paid to the owners of both major breeds in Texas amounted to \$30 million. The difference is \$76 million.

Comparing incentive award payouts from the respective Louisiana and Texas breeder incentive programs further underscores why Texas owners and breeders have moved their operations to neighbor states, significantly downsized their Texas operations, or just plain left the business. In 2009, Louisiana's state breed incentive program paid awards to Thoroughbred and Quarter Horse participants totaling more than \$40 million. The Accredited-Texas-bred Incentive Program for Thoroughbreds and Quarter Horse participants paid out only \$2.7 million. It is worthy to note that breed incentives paid to Thoroughbred and Quarter Horse participants in Louisiana in 2009 were far greater than the total amount paid in purses in Texas to Thoroughbred and Quarter Horse owners.

Statistics available from the two major national breed registries — The Jockey Club for Thoroughbreds and the American Quarter Horse Association (AQHA) — show the huge negative impact on the agricultural economy of Texas in recent years due to the decline in breeding activity.

From 2000 to 2009, the number of Thoroughbred stallions breeding one or more mares annually in Texas has dropped from 465 to 250, a 46 percent decline. The number of mares bred in the same 10-year period has fallen from 3,663 to 1,762, a 52 percent drop. The number of newborn Texas Thoroughbreds has dropped from 2,034 in 2000 to 1,180 in 2008 (the last full reporting year), a 42 percent decline.

From 2005 to 2009, the number of Quarter Horse stallions standing in Texas to sire both racing and non-racing stock has dropped from 5,914 to 3,904, a decline of 34 percent. The number of mares bred in 2005 totaled 40,696, but that number fell to 27,890 in 2009, a decline of 32 percent. The number of newborn Texas Quarter Horses fell 32 percent from 24,139 in 2005 to 16,464 in 2009.

AQHA also tracks the number of Quarter Horse stallion owners annually. In 2005, there were 4,691, whereas there were only 3,008 in 2009, a drop of 36 percent.

The negative agricultural impact the loss of stallions and broodmares has on the economy is substantial. One broodmare can have a two-year-old, a three-year-old, a four-year-old and sometimes a five-year-old in training at the same time. The cost of training one horse is estimated to be \$25,000 per year, when including veterinary and farrier services. This means each mare may provide as much as \$100,000 annually to the agricultural economy. The loss of 15,000 mares in the last few years equates to a loss of \$1.5 billion in the Texas agricultural economy from horses alone.

The Texas Greyhound industry has been forced to deal with similar statistics:

- The number of live performances declined from 1,038 in 2004 to 472 in 2009
- The number of employees declined from 1,100 in 2000 to 333 in 2009
- Membership in the Texas Greyhound Association has declined from 452 to 237
- Texas registration of puppies declined from 10,970 to 2,312.

Some other statistics underscore the plight of the industry:

- Over the last decade, the number of licenses issued by the Texas Racing Commission for owners, breeders and trainers has dropped by more than 50 percent
- The number of Thoroughbred mares in Texas has dropped by more than 50 percent
- The number of registered foals declined 42 percent in the last eight years
- Louisiana has seen a 75 percent increase in the number of Thoroughbred mares bred since 1998
- New Mexico has experienced an 82 percent increase in the number of registered foals.

These statistics all result from the declines in wagering at Texas tracks. Despite the wagering declines, Texans continue to gamble, spending \$2 billion at casinos in the neighboring states. Texans make up nearly 44 percent of the gaming market in Louisiana and almost 37 percent of the market in Oklahoma. Texans also spent \$4 billion on lottery tickets in 2009.

Throughout the last 10 years, the Texas racing industry has suffered declines in virtually every measurable category. During the same period, the tracks and the breeding industries in the surrounding states have prospered. Breeding operations, horse trainers and veterinarians continue to leave the state and move to the surrounding states where purses are much higher and breeding incentives far more rewarding. Texas tracks have been forced to lay off employees, reduce benefits and cut back on key expense areas in an attempt to survive. Several Texas tracks have either shut down racing operations or have closed completely. For example, Manor Downs in Austin, which had been operating longer than any other Class 1 or 2 track, ceased operations in July 2010. Additionally, Corpus Christi Greyhound and Valley Race Park are not currently hosting live racing.

For a frame of reference, New Mexico began incorporating slot machines into racetrack operations in 1998, Louisiana in 2002, and Oklahoma in 2006. In the meantime, Arkansas' Oaklawn Park and Southland Greyhound Park have benefited from revenue generated by Instant Racing machines — machines that accept pari-mutuel wagers on archived or historic races — for more than a decade and from poker machines that became operational a few years ago.

Competitive Issues

The success of racing at any racetrack is driven by the level of its purses particularly relative to the tracks in nearby states. Purses are the prize money paid out to the top finishers of each race. They are a function of the level of wagering at the track on the live racing and also on simulcast betting on the races from around the country. Additionally, a portion of gaming revenues at tracks that have the benefit of gaming are dedicated to purses. Every state also has funds dedicated to purses for horses that were bred in the state in which the track is located. The funds are known as state bred purses and the races known as state bred races. Breeder awards and incentives are also paid out as a way of rewarding the owners of accredited stallions and broodmares in a state.

Horse and greyhound owners have many tracks to choose from when making the decision to race. An owner will typically select the track within a geographic area that has the highest purses or at least purses that are high enough to offer the potential for profit from racing. Likewise, horse and greyhound breeders set up breeding operations in states that:

- Have significant purse levels
- Offer substantial state bred purses
- Have high levels of breeder awards and incentives.

Tracks in Texas must rely on pari-mutuel racing alone for generation of purses and, by extension, for the number and quality level of its horse and greyhound population and breeding operations. Every state bordering Texas — New Mexico, Oklahoma, Arkansas and Louisiana — has the benefit of gaming revenues, which greatly enhance purse levels, state bred purses and state bred breeder incentives. Texas tracks cannot compete with the purse levels offered. The state is and has been losing its horse and greyhound population and breeding stock to the surrounding states.

Some key facts and figures that illustrate the effect are:

- Purses at Delta Downs in Louisiana rose from \$45,000 to \$245,000 per day following the legalization of slot machines
- In New Mexico, agri-business payrolls tripled and the number of direct jobs rose by 180 percent within two years of legalization of slot machines
- At Remington Park in Oklahoma, purses tripled within one year of approval of slot machines.

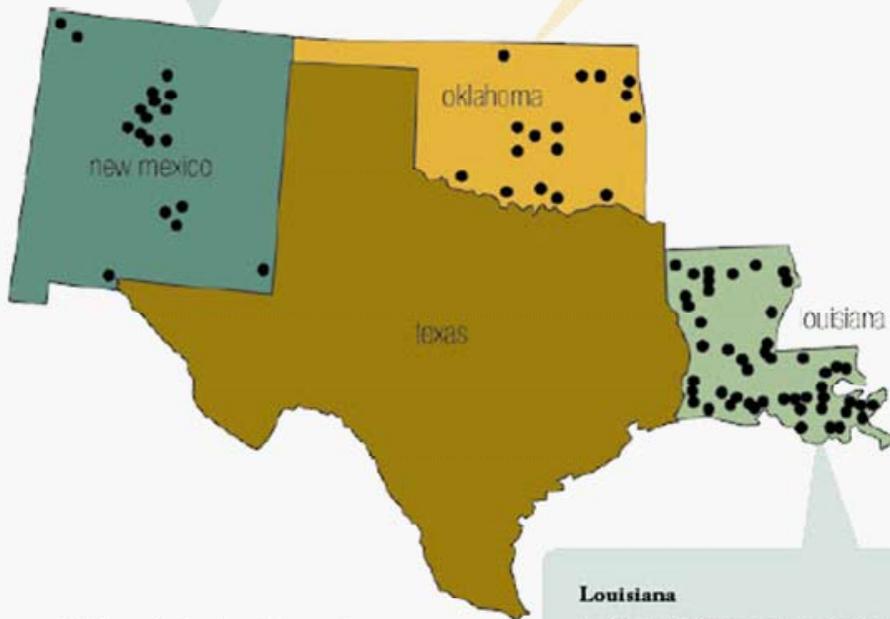
The Problem: The Current Environment
Texas is surrounded by slots

New Mexico

- Slot machines at racetracks legalized in 1997
- Of five racetracks, two are located at Sunland Park and Hobbs, directly across the Texas border, and a third is in Ruidoso, which is within easy driving distance of Texas.
- 22 Indian casinos

Oklahoma

- Slot machines at racetracks legalized in 2004
- Three operational racetracks with slot machines
- 96 Indian casinos, five of which are located right across the Texas-Oklahoma border.



● Indicates the location of racetracks, off-track betting facilities, video lottery terminals, and Native American casinos.

Louisiana

- Slot machines at racetracks legalized in 1994
- Of four racetracks, two are located in Vinton and Bossier City, close to the Texas border.
- Casinos authorized in 1991. Four of the state's 17 casinos are located near the Texas border.
- Estimated yearly casino & racino visitors: 35 million

Illegal Gaming and Internet Wagering

By some estimates, there are as many as 150,000 illegal eight-liner machines in operation in Texas. Eight-liner machines offer Texans an alternative to slot machines and are available in almost every city and town. These operations take patrons away from racetracks, do not pay state taxes and offer no contribution to horse and greyhound purses. County and district attorneys have an almost impossible task when trying to combat this gaming as it is very easy to set the parlors up (a few weeks at the most) and it takes years to shut down the operations and prosecute the owners.

Assuming that these machines earn only \$20 of net win each day, the illegal operations would still generate \$1 billion in net win, all to the sole benefit of the criminal operators. Net win is that amount of money the operator retains after paying out winnings to patrons.

Internet wagering is illegal in Texas and presents a unique challenge to the Racing Commission and law enforcement. Directly relating to racing in Texas is internet wagering on horse and greyhound races known as advance deposit wagering (ADW). Texans can open an ADW account just as easily as they can set up any other online account. To open an ADW account, a Texan would simply deposit funds with an online ADW operator and then draw against the deposited funds to place bets on races. Texans can bet on races conducted all over the country in the comfort of their living room.

The irony of ADW wagering is that only Texas racetracks and Texas-based businesses are prevented from operating ADW sites. ADW operators from all over the U.S. and in the Caribbean serve Texas patrons regularly without any consequences.

Today, Texas tracks, greyhound owners and horsemen lose money due to illegal wagering by virtue of the fact that patrons can wager online instead of coming out to the tracks. When illegal wagers are made, the tracks, greyhound owners and horsemen do not receive any share of the amounts wagered. So the illegal operators are, in essence, taking patrons out of the tracks and accommodating their betting wishes in homes throughout the state. To compound the problems, ADW providers often offer rebates to online customers, sometimes as much as 10 percent of the amounts wagered. The ADW operators are able to do this because they do not incur the operational and huge capital costs associated with a racetrack facility.

The loss of wagering from ADW operations is substantial. Estimating the total amount of illegal online ADW wagering is difficult given the lack of regulation of the operators. However, estimates of the amount of wagering that would occur if ADW is legalized range as high as \$94 million annually. This level of wagering would provide much needed operational earnings to the tracks and more than \$2.5 million in purse funds. Consider the following:

- A high ranking executive at one of the largest ADW operators stated that Texas is the best market in the country in terms of number of customers and amount wagered

- The Texas economy loses 15 cents of every dollar wagered through ADWs
- The racing industry, including Texas horsemen, greyhound owners and Texas breeders, is deprived of nearly \$15 million.

Prospects for the Future

It is quite clear that the Texas racing industry must, in the future, continue to contend with the following competition:

- New and innovative games developed by the Texas Lottery and an ever escalating number of outlets throughout the state
- Continued heavy marketing and promotion of lottery games by the Lottery Commission
- More illegal internet wagering and ADW sites and extensive marketing to horseplayers by the operators of these sites
- New and improved casinos in the surrounding states giving Texans “Las Vegas style” casino entertainment easily accessible to Texas borders — more and more Texas license plates will dominate the parking lots of New Mexico, Oklahoma and Louisiana casinos — more and more billboards in major Texas markets will advertise casinos in the surrounding states
- Crafty operators of illegal eight-liner parlors finding new ways to avoid law enforcement and extend the time it takes to prosecute once found
- More Texas small business owners moving their breeding farms to the surrounding states to take advantage of the enhanced incentives offered through gaming in those states
- More Texas small business owners taking their horses to run at tracks in the surrounding states as Texas tracks cut further back on racing opportunities due to a lack of purse funds.

Effect of the Industry Decline on the State

The racing industry in Texas contributes \$5.5 billion to the Texas economy and 36,000 jobs according to industry estimates. The jobs are found in 40 different sectors of the Texas economy. While the Texas tracks tend to be the highly profiled and viewed segment of racing, the backbone of the industry is made up of Texans and their families who have small businesses dependent on a turnaround in the industry. The livelihoods of thousands of Texans, including veterinarians, farriers, feed store owners, breeders, equipment suppliers, van operators, trainers, jockeys, grooms and track employees, are dependent on the continued survival of the industry.

Those who remain in the industry have stayed in Texas because they are dedicated Texans who hope to see a better day. Most have generational roots in the state and want to see the same success for the Texas racing industry that is now enjoyed in the surrounding states.

Another important group that is affected is the track patrons. The industry serves millions of patrons each year who love the sport and have a deep appreciation for the horse and greyhound

animals. The tracks have done an admirable job of developing family entertainment, concerts tied to live racing and countless promotions which are a big part of the lives of many.

Additionally, the tracks have helped the areas that surround them to develop residentially and commercially. The number of homes, retail outlets, entertainment venues and restaurants that have developed around the tracks is a testament to the incorporation of the tracks into the fabric of the communities they serve.

Possible Solutions to the Current State of the Industry

Summary of Recommendations

- *Pursue legislation that would allow ADWs in the state and set up fair revenue sharing between the horsemen, breeders, Texas tracks and ADW operators*
- *Once additional forms of gaming are allowed at the Texas tracks, consider areas of Texas that would be suitable for county fair racing*
- *Pursue legislation that would legalize video lottery terminals at Texas racetracks*
- *Pursue a slight change in the Texas Racing Act that would allow Instant Racing at Texas racetracks*
- *Learn more about exchange wagering and provide information to industry stakeholders to determine if exchange wagering would benefit the racing industry*

Advance Deposit Wagering

Recommendation: Pursue legislation that would allow ADWs in the state and set up fair revenue sharing between the horsemen, greyhound owners, breeders, Texas tracks and ADW operators.

Allowing ADWs in the state solves the problems created by illegal wagering by regulating ADW activity and ensuring the proper financial contribution to the industry. The positive aspects of allowing ADWs include:

Innovation

- **ADWs provide a convenient and innovative product to the industry**
- ADW handle is growing annually and becoming more significant to the industry

Regulation

- Regulating ADWs allows the state to protect its citizens and ensure proper guidelines

Industry

- **Regulating ADWs mandates a proper contribution to the racing industry**
- In the absence of regulation, purses, track distributions and state taxes are circumvented

Currently 20 states authorize and or license ADWs. The Web sites operated by the legal ADW operators offer numerous benefits to patrons including convenience, information and video

streaming. Wagering through ADWs has risen from less than 6 percent of overall wagering to around 13 percent.

ADW operators offer customers the ability to wager through live operators, web platforms and mobile platforms. The legitimate ADW operators typically enter into contracts with the horsemen and tracks in a state and provide for both to receive fair shares of the amount wagered within a state. The amounts paid are referred to as source market fees and can be either legislated, set by rules processes or simply negotiated.

The major issue associated with ADWs today is that the wagering is rampant and the Texas tracks have no ability to participate given the strict provisions of the Texas Racing Act. Legalized ADWs at Texas tracks could mean as much as \$2.5 million in additional purses and \$4.6 million in additional revenue to the tracks.

While this enhancement to racing would be helpful, it would not:

- Significantly improve the quality of racing in Texas
- Enable the tracks to become profitable
- Provide a measurable change in the continued loss of breeding operations to the surrounding states.

However, legalization does put the racing industry in Texas in the 21st century and takes away the illegal pilfering of the wagering dollar.

County Fair Racing

Recommendation: Once additional forms of gaming are allowed at the Texas tracks, pursue areas of Texas that would be suitable for county fair racing.

Horse activities and horse racing have been a part of the fabric of life in Texas for decades. From matching horses against each other to non-profit pari-mutuel races at county fair locations and other sites, to legal wagering on races from 1933 to 1937 and again beginning in 1989.

Before the Texas Racing Act passed in 1986, county fair racing in Texas had developed deep roots and a very rich history in all areas of the state. There were more than 40 sites for county fair racing in Texas. Today horse racing takes place at only one county fair site, Gillespie County Fairgrounds, on July and August weekends in Fredericksburg. Gillespie has a Class 3 license which permits up to 16 racing days, but has run eight days annually for the past several years.

The Texas Racing Act has provisions for Class 1, 2, 3 and 4 racetrack licenses. A Class 4 license provides no more than five days of racing annually during county fairs at the location where the license is issued. There have been no Class 4 licenses issued and none applied for in 25 years.

The operations of the Gillespie County Fair show why there have been no licenses issued and no other Class 3 tracks racing. Gillespie has been operating for more than 100 years. Most of the staff involved with the operation volunteer and the racing is a major part of community life in Fredericksburg. Additionally, racing enthusiasts from all over the state make annual trips to enjoy the racing and fair activities. Despite the rich tradition and volunteer service, Gillespie has operated at a loss for the last few years. Gillespie officials have stated that the stringent rules and regulations involved in Texas racing make it cost prohibitive to operate profitably.

Four years ago, the Texas Thoroughbred Association launched an initiative to identify the past sites where county fair racing took place. Further, an effort was made to determine whether there were any former locations that might be resurrected for live racing without requiring unrealistic capital investment. This effort was initiated several months before the downturn in the economy and corresponding weakening of the capital markets. Thirty-eight former county fair locations were identified, many of which have been developed for other uses or subdivided, and are no longer suitable for racing. However, there are eight county fair sites that could be operational without incurring huge renovation costs.

Any operator of a Class 3 or 4 racetrack would also be able to offer simulcasting in addition to live racing thereby generating purse revenue. In spite of this and the operational benefit of simulcasting, it is clearly difficult to entice any entity to risk the necessary capital to open up Class 3 or 4 facilities. Even if a few facilities were developed, the impact on Texas racing likely would be minimal.

Video Lottery

Recommendation: Pursue legislation that would legalize video lottery terminals at Texas racetracks.

Video lottery is a gaming system whereby slot machines are linked to a system either controlled by or monitored by the state. In all likelihood, such a system in Texas would be controlled or monitored by the Texas Lottery Commission.

Video lottery or slot operations have been authorized in 15 states including New Mexico, Oklahoma and Louisiana. The racing industry in every jurisdiction that has authorized video lottery with a reasonable regulatory framework has been significantly enhanced. In states where tax rates have been excessive, video lottery has either not been operational or has failed.

Operations at Texas tracks, following passage of legislation and required vote of the Texas citizens on a constitutional amendment, could be established relatively quickly. A combination of temporary and permanent facilities can be implemented. Racetrack video lottery operations could provide **\$600 million or more** in gaming tax revenue over the next biennium. Texas racetrack gaming could generate **77,500 jobs, \$8.5 billion in economic activity, \$3.1 billion in annual gaming revenue and more than \$900 million in tax revenue per year** at full implementation.

Texas tracks and the racing industry offer a framework for implementation of video lottery:

- Racetracks are already licensed and regulated by the State (**Texas Racing Commission, Department of Public Safety**)
- Racetracks have already received local authorization and approval
- Facilities are in place in the major markets.

Video lottery implementation in other states has gone very well when an appropriate tax rate and reasonable up-front fees have been set. Taxes and up-front fees in Delaware, West Virginia, Louisiana, New Mexico, Oklahoma and Iowa were reasonably set and resulted in very successful operations providing significant revenue to each state involved. In each of those cases, the implementation has also significantly enhanced the racing industry including vast expansion of breeding operations.

In states where tax rates and/or up-front fees have been excessive, video lottery operations are either failing or never moved forward. Examples include:

- New York - \$350 million in up-front fees and a 70 percent tax rate at Aqueduct has resulted in no gaming being established more than 10 years after authorization
- Indiana - \$250 million in up-front fees led to Hoosier Park filing for bankruptcy in March 2010
- Kansas – high tax rates and up-front fees led tracks to decline to apply for video lottery operations and close.

In Florida, high tax rates made it very difficult for the tracks to compete with Native American casinos. Those tax rates were reduced substantially through subsequent legislation.

Industry projections show that 32,400 video lottery terminals would be supported by the market. This level represents 1.26 video lottery terminals per 10,000 people. The figures in other states include:

- Oklahoma with 14.89
- West Virginia with 10.14
- Louisiana with 9.55
- New Mexico with 9.53
- Delaware with 8.55.

The lowest of any state with full operations is Pennsylvania with 1.96 terminals per 10,000 people. The states listed above are the highest in the country and it is interesting to note that three out of the top four border Texas. This demonstrates the high level of gaming that comes from Texans and allows those states to justify far more machines than their population base supports.

The 32,400 terminals could generate well in excess of \$3 billion annually and provide more than \$900 million annually in tax revenue to the state. Additionally, \$330 million in revenue for purses and breeder incentives are possible, which could turn over as much as seven times in the agricultural economy.

Much of this revenue would be recaptured from the wagering by Texans in surrounding states and in illegal eight-liner operations.

Given the competition faced by the Texas racing industry and the need to “level the playing field” with surrounding states, video lottery is the only viable option that allows the industry to become competitive.

Instant Racing

Recommendation: Pursue a slight change in the Texas Racing Act that would allow Instant Racing at Texas racetracks.

Instant Racing is a pari-mutuel wagering system in place in Arkansas at Oaklawn Park and Southland Greyhound Park. Instant Racing operates off a server loaded with tens of thousands of previously run races. Instant Racing machines, which are tied into the server, display information on the horses, trainers and jockeys in a specified race. A patron uses this information to wager on a horse in the displayed race. The display shows a portion of the previously run race and then also presents the results of the patron's wagering on that race. Winning patrons are rewarded from a pari-mutuel pool.

To be clear, the races that patrons are betting on have been run in the past at one of many tracks across the country. The patron has no way of knowing where the race was run, when it was run and which specific horses ran. They must use the unique handicapping information presented just like a patron today uses more traditional handicapping information to wager on live or simulcast races.

Instant Racing has been highly successful at Oaklawn Park in Hot Springs over the past 10 years. Oaklawn has 353 Instant Racing machines and experienced net win per machine of \$173 per day for 2009. This equates to total net win of \$21 million for the year and an additional \$3 million to horse purses. Some interesting points with regard to Instant Racing's success at Oaklawn:

- Oaklawn Park is in Hot Springs, a town of 30,000
- Wagering is processed over the same tote system that handles racing wagers
- Oaklawn began installing poker machines in 2006, yet wagering in 2009 reached record levels.

Exchange Wagering

Recommendation: Learn more about exchange wagering and provide information to industry stakeholders to determine if exchange wagering would benefit the racing industry.

Exchange wagering is defined as a form of betting in which two or more persons place directly opposing wagers on the outcome of a race.

Exchange wagering allows a bettor to wager on a selected outcome occurring, while another bettor can wager on that same outcome not occurring. Those identically opposing wagers are matched when an account holder selects an outcome at the same price at which another account holder selects the opposite outcome, with amount of the wager being equal for each account holder.

Once the outcome of a race is determined, funds are transferred from the exchange wagering account of the bettor who lost the wager to that of the bettor who won the wager. If exchange wagering was authorized in Texas, the applicable transaction or other fees would be levied by the exchange wagering licensee for use and distribution as provided by the commission's rules and regulations.

Patrons are able to place bets not only on what horses might win the race, but on which ones may lose. The state of New Jersey is considering a bill that would authorize exchange wagering.

“This is just another way to help our horse racing industry,” said Assemblyman John J. Burzichelli (D-Gloucester/Cumberland/Salem), who recently authored a law aimed at decreasing New Jersey's horse racing events but increasing purses at those races. “This is simply another option and another way to build interest in the races, which can only help the industry as we move forward with a more modern racing model for our state.”